

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 CIAE-00 PM-03 H-01 INR-05 L-02

NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-01 XMB-02 OPIC-03

CIEP-01 LAB-01 SIL-01 OMB-01 NEA-06 IO-10 CEA-01

STR-01 AGR-05 /094 W

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P 260853Z NOV 74

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8654

INFO AMEMBASSY SAIGON PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 2/28/75

TAGS: EAID, EFIN, VS

SUBJECT: PROPOSED ADB LOAN - TAN AN INTEGRATED AGRICULTURAL
PROJECT (VIETNAM)

SUMMARY: ADB MANAGEMENT PROPOSES \$7.4 MILLION
EQUIVALENT LOAN FROM SPECIAL FUNDS RESOURCES TO
GOVT OF VIETNAM FOR TAN AN INTEGRATED AGRICULTURAL
PROJECT. PROJECT IS DESIGNED TO PROVIDE SOLUTIONS
TO PROBLEMS ARISING FROM RECURRENT FLOODING, SALINITY
INTRUSION, POOR SURFACE DRAINAGE AND SEASONAL
SHORTAGE OF IRRIGATION WATER, AS WELL AS FROM
INADEQUATE AGRICULTURAL SERVICES TO FARMERS. PROPOSED
BANK LOAN WOULD FINANCE \$5.7 MILLION FOREX COMPONENT
AND UP TO \$1.8 MILLION OF LOCAL CURRENCY COST.

THIS WOULD BE FIRST TIME FOR BANK TO FINANCE ANY

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LOCAL CURRENCY COSTS. PROJECT INCLUDES PROVISION

OF EXPATRIATE ENGINEERING AND ADVISORY SERVICES.
USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC. R115-74 WITH ATTACHMENTS DESCRIBING
PROPOSED LOAN POUCHED ADDRESSEES NOV. 21. BOARD
CONSIDERATION SCHEDULED DEC. 10.

2. ADB MANAGEMENT PROPOSING \$7.4 MILLION LOAN
FROM SPECIAL FUNDS RESOURCES TO GOVT OF VIETNAM.
PROCEEDS WILL FINANCE \$5.7 MILLION FOREX COST AND
UP TO \$1.8 MILLION OF LOCAL COST OF TAN AN INTEGRATED
AGRICULTURAL PROJECT. PROJECT IS DESIGNED TO PROVIDE
SOLUTIONS TO PROBLEMS OF FREQUENT FLOODING AND
SALINITY INTRUSION, SLUGGISH SURFACE DRAINAGE AND
SHORTAGE OF IRRIGATION WATER DURING DRY SEASON, AND
LACK OF READY ACCESS TO FARMS; ALSO ASSOCIATED
ACTIVITIES AIMED TO RECTIFY INADEQUATE INSTITUTIONAL
ARRANGEMENTS FOR FARM TECHNICAL SERVICES, INPUT
SUPPLY, PRODUCTION CREDIT AND RELATED NEEDS.
PROPOSED TERMS ARE 40 YEARS AMORTIZATION INCLUDING 10
YEAR GRACE PERIOD, ONE PERCENT SERVICE CHARGE PER
ANNUM. REPUBLIC OF VIETNAM TO BE BORROWER AND
DIRECTORATE GENERAL OF IRRIGATION (DGI) TO BE EXECUTING
AGENCY.

3. WHILE AGRICULTURE SECTOR ACCOUNTS FOR ABOUT 38
PERCENT OF VIETNAM'S NET DOMESTIC PRODUCT, ONLY ABOUT
450,000 HECTARES (MOSTLY IN MEKONG DELTA REGION)
HAVE ANY TYPE OF IRRIGATION FACILITIES. RICE, WHICH
IS MAIN CROP, ACCOUNTS FOR ABOUT 2.7 MILLION HA. OF
CULTIVATED AREA.

4. FEASIBILITY STUDY FOR PROJECT WAS CONDUCTED
UNDER BANK TECHNICAL ASSISTANCE. PROJECT HAS BEEN
ACCORDED HIGH PRIORITY BY GOVT AS IT WISHES TO INCREASE
RICE PRODUCTION AND RAISE INCOMES OF SMALL SUBSISTENCE
FARMERS WHO HAVE RECENTLY BECOME LAND OWNERS UNDER
"LAND-TO-THE-TILLER" PROGRAM. PROJECT IS ONE OF
SEVERAL IRRIGATION PROJECTS INCLUDED IN GOVT'S EIGHT-
YEAR (1973-1980) POSTWAR PROGRAM FOR RECONSTRUCTION
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AND DEVELOPMENT.

5. PROJECT AREA IS LOCATED IN NORTHEASTERN PART OF
DELTA, ABOUT 40 KM SOUTHEAST OF SAIGON AND ABOUT 20
KM NORTHWEST OF ONGOING BANK-FINANCED GO CONG PIONEER
AGRICULTURAL PROJECT AREA. MAIN INFRASTRUCTURE
FACILITIES TO BE CONSTRUCTED IN 8,220 HA. OF IRRIGABLE
LAND UNDER PROJECT WILL INCLUDE: (A) INTAKE STRUCTURE

AND ASSOCIATED NAVIGATION LOCK, (B) FLOOD AND SALINITY CONTROL DIKES AND MAJOR DRAINAGE SLUICES; (C) IRRIGATION PUMPING PLANTS, INCLUDING ELECTRIC POWER SUPPLY FACILITIES; (D) IRRIGATION AND DRAINAGE NETWORKS; (E) FARM ACCESS ROADS; AND PILOT DEMONSTRATION FARM. INTEGRATED AGRICULTURAL SERVICES AND FACILITIES ARE TO BE PROVIDED TO ENABLE FARMERS TO MAKE FULL USE OF AGRICULTURAL POTENTIAL OF PROJECT AREA. ADDITIONALLY, CONSULTING SERVICES TO ASSIST IN ENGINEERING AND CONSTRUCTION SUPERVISION, WATER AND SOIL MANAGEMENT AND FARM EXTENSION SERVICES ARE TO BE PROVIDED. PROJECT CONSTRUCTION IS ESTIMATED AT ABOUT FIVE YEARS.

6. TOTAL COST IS ESTIMATED AT \$12.7 MILLION, WITH DIRECT FOREX COMPONENT OF \$5.6 MILLION AND LOCAL CURRENCY COMPONENT OF \$7.1 MILLION. CONSTRUCTION WOULD BE CARRIED OUT BY LOCAL CONTRACTORS WITH ADEQUATE FINANCIAL AND TECHNICAL CAPABILITY. IN LINE WITH BANK'S RECENT POLICY RE FOREX FINANCING OF LOCAL CURRENCY EXPENDITURES (APPROVED BY BOARD OF DIRECTORS ON 16 JULY), BANK PROPOSES TO FINANCE UP TO \$1.8 MILLION (OR ABOUT 25 PERCENT) OF PROJECT'S LOCAL CURRENCY COSTS. THIS WOULD BE BANK'S FIRST LOCAL COST FINANCING UNDER NEW POLICY. PROPOSED LOCAL CURRENCY FINANCING UNDER LOAN WOULD BE ALL LOCAL COSTS ASSOCIATED WITH EXPATRIATE CONSULTING AND MAPPING SERVICES (ABOUT \$0.3 MILLION) AND ALL CONSTRUCTION LABOR COSTS UP TO COMBINED CEILING OF \$1.8 MILLION. PROPOSAL TO INCLUDE CONSTRUCTION LABOR COSTS AS PART OF LOAN PROCEEDS IS TO ENCOURAGE LABOR INTENSIVE METHODS FOR PROJECT CONSTRUCTION AS FAR AS PRACTICABLE AND TO EXTEND SCOPE OF MINISTRY LIMITED OFFICIAL USE

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OF AGRICULTURE (MOA) FINANCING FOR OTHER SMALL-SCALE PRIORITY AGRICULTURAL PROJECTS. GOVT HAS ASSURED THAT BALANCE OF LOCAL CURRENCY REQUIREMENTS (\$5.3 MILLION EQUIVALENT) WILL BE MADE AVAILABLE AS REQUIRED.

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NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02 SS-15

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CIEP-01 LAB-01 SIL-01 OMB-01 NEA-06 IO-10 CEA-01

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7. FOREX PROCUREMENT, TO BE CARRIED OUT IN ACCORDANCE WITH BANK'S GUIDELINES FOR PROCUREMENT, INCLUDE: CONSTRUCTION MATERIALS (E.G., CEMENT, REINFORCING BARS AND STEEL SHAPES); MACHINERY AND EQUIPMENT FOR PUMPING PLANTS, SLUICES AND OTHER STRUCTURES; CONSTRUCTION EQUIPMENT AND SPARES; AND OPERATION AND MAINTENANCE EQUIPMENT. (MAJOR CONSTRUCTION EQUIPMENT FOR PROJECT WILL BE DRAWN FROM LOCAL SOURCES AND WILL BE PART OF LOCAL COSTS.) SUPPLY CONTRACTS OF \$100,000 OR MORE TO REQUIRE INTERNATIONAL COMPETITIVE BIDDING. CONSULTANT FIRM TO BE SELECTED IN ACCORDANCE WITH BANK'S USES OF CONSULTANTS WILL CARRY OUT DESIGNS AND PREPARE TENDER DOCUMENTS FOR MAPPING, PROCUREMENT AND CONSTRUCTION CONTRACTS; ASSIST DGI IN SUPERVISING OF CONSTRUCTION; PROVIDE TRAINING OPPORTUNITIES FOR DGI PERSONNEL AND ASSIST IN INITIAL OPERATION AND MAINTENANCE OF FACILITIES. ALSO, SERVICES OF SOIL AND WATER MANAGEMENT AND AGRICULTURAL EXTENSION SPECIALISTS WILL BE PROVIDED AND WORK CLOSELY WITH LIMITED OFFICIAL USE

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UNDP TEAM EXPECTED TO BE ASSIGNED TO DGI.

8. DGI, THE EXECUTING AGENCY, IS UNDER MOA AND IS SUCCESSOR TO DIRECTORATE OF IRRIGATION AND

RURAL ENGINEERING, WHICH IS ALSO EXECUTING AGENCY FOR BANK-FINANCED BINH DINH IRRIGATION AND GO CONG PIONEER AGRICULTURAL PROJECTS. DGI WILL ESTABLISH PROJECT OFFICE IN TAN AN AND GOVT HAS AGREED TO TAKE NECESSARY STEPS TO STRENGTHEN IT BY ENGAGING ADDITIONAL PERMANENT STAFF AND OTHER MEASURES. IT HAS RECEIVED GRANT TECHNICAL SERVICES FROM USAID, REPUBLICS OF CHINA AND KOREA, NETHERLANDS, MEKONG COMMITTEE AND UNDP/FAO. LATTER IS EXPECTED TO ASSIST FURTHER TOWARD STRENGTHENING DGI'S OVERALL INSTITUTIONAL FRAMEWORK.

9. PROPOSED PROJECT IS CONSIDERED TO BE TECHNICALLY, INSTITUTIONALLY AND ECONOMICALLY VIABLE. IT IS EXPECTED TO INCREASE ANNUAL PRODUCTION OF PADDY BY ABOUT 46,000 TONS AND SECONDARY CROPS (E.G., SOYBEANS) BY ABOUT 1,200 TONS. PARTICIPATING FARMERS' INCOMES ANTICIPATED TO INCREASE BY ABOUT 2.75 TIMES. NET FOREX SAVINGS ARE ESTIMATED AT \$5.4 MILLION YEARLY. INTERNAL RATE OF RETURN IS ESTIMATED AT 14.3 PERCENT. PROJECT IS ALSO EXPECTED TO PROVIDE SUBSTANTIAL EMPLOYMENT OPPORTUNITIES FOR RURAL LABOR FORCE. INTEGRATED AGRICULTURAL DEVELOPMENT APPROACH OF PROJECT WILL PROVIDE MODEL FOR FUTURE PROGRAMS IN COUNTRY. USADB SUPPORTS PROPOSAL, INCLUDING LOCAL COST FINANCING, AND RECOMMENDS FAVORABLE NAC ACTION.

10. REQUEST SAIGON'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DTD 3 JULY 1972.
SULLIVAN

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